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CENTRAL INTELLIGENCE GROUP
INTELLIGENCE REPORT

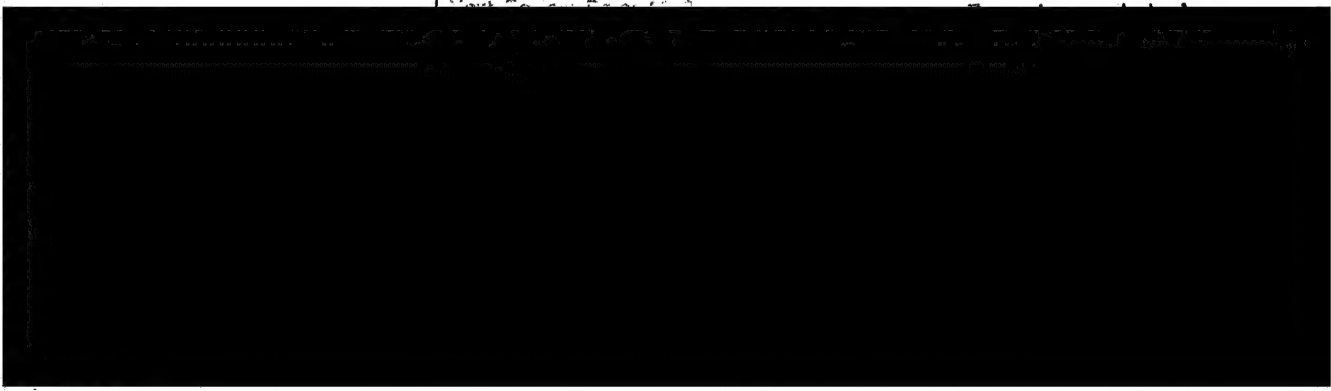
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SUBJECT Political & Economic Information: Criticism of Administration in Formosa

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SUPPLEMENT

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This document is hereby regraded to CONFIDENTIAL in accordance with the letter of 16 October 1979 from the Director of Central Intelligence to the Archivist of the United States.



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Note: During July and August 1946 there was considerable criticism in the Chinese press aimed at the maladministration of Taiwan. The Chiao Shun Pao even went so far as to write an editorial entitled "Taiwan in a Mess." Then, early in September the Taiwan authorities planned a carefully conducted tour of the island for foreign newspaper correspondents. The activities of the party were closely supervised by guides or interpreters. The Life-Time representative was assigned what seemed to be a personal body guard, who became extremely voluble whenever the correspondent started getting too much information through her questions. On one occasion, when she managed to evade her guide on a shopping trip, even the local police were called out to find her. At the conclusion of the tour the correspondents returned and wrote, at least for the local press, glowing accounts of the rehabilitation of Taiwan. This report was written to supplement the newspaper account. Only pertinent parts of the original report are given.)

Unpopularity of Present Administration

1. The past year has witnessed growing dissatisfaction on the part of the Formosan people toward the provincial administration, which is crystalizing into an antagonism against Governor CHEN Yi's administration.

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Note: Source B, whose present job entails the daily reading of several Chinese newspapers, states that the Shanghai press, although attacking the Taiwan administration, never yet has attacked Governor CHEN Yi personally. This may be because of fear of censorship or actual dissatisfaction with the officials surrounding CHEN Yi rather than with the governor himself.)

2. The people opposing the Administration on the island have worked within the island and with political elements on the mainland for the overthrow of the present provincial administration of Taiwan. This movement is gaining considerable ground. It will not be surprising if the people of Taiwan rise up against Governor CHEN Yi's regime in open revolt at the first opportunity. At the same time the unsettled situation in Taiwan is affording shelter for

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25X1A6a underground activities of Communists and Japanese who are availing themselves of the opportunity to maintain their own foothold on the island and to foment trouble. 25X1X6

Note: [redacted] some Taiwanese declared that there would be popular demonstrations soon even if armed revolt is not possible. The Taiwanese will demand independence after a ten to twenty year mandate under the UN.)

3. Governor CHEN Yi received his present post in Taiwan on the strength of his affiliation with 25X1X6 Political Science Clique or the "Cheng Hsueh Hsi".

25X1A6a **Note:** [redacted] although CHEN Yi is a member of the Political Science Clique, he did not need the support of the Clique to obtain the office, because of his own political power.) General CHEN Yi's previous record as governor of Fukien is not without stain. During his term of office as governor of Fukien at the outbreak of the Sino-Japanese war, General CHEN Yi, being a strong pro-Japanese militarist, collaborated with the Japanese Governor-General of Taiwan and suppressed a large number of Taiwan revolutionary leaders who sought refuge in Fukien across the channel. With this background, CHEN Yi's appointment aroused a wave of indignation and opposition on the part of both the Fukienese and the Taiwanese (about 90% of whom are descendants of Fukienese), but his Political Science Clique affiliations gave him enough support to keep his appointment. Taiwanese leaders are endeavoring to align themselves with the anti-Political Science Clique elements in the Chinese government against Governor CHEN Yi, whose poor administration is a conspicuous weakness in the Clique.

Isolationism

4. The fundamental mistake of Governor CHEN Yi's administration in Taiwan is probably his policy of isolation- both from the mainland and from foreign countries. The provincial administration's relations even with the National government are more nominal than actual. The administration is different in name as well as in fact from all of the other provincial governments of the country. The governor maintains his own freedom of action.

5. To the ire of the Chinese financial authorities and economic interests, the governor keeps the Japanese yen currency of pre-VJ days.

25X1A6a **Note:** On 2 September 1946 the actual Japanese yen was officially replaced by a new Chinese unit of the same value, according to a Central News Agency release on 3 September.)

6. The governor maintains virtual independence from the Chinese national financial system, and is, so far, successful in warding off even the Central Bank of China's efforts to establish a branch in Taiwan. He has achieved financial isolation through control of exchange and remittances and by refusing to peg the local Taipei to the Chinese national currency. When the Chinese government decided to change the official rate of exchange from CNC \$2020 for US \$1 to CNC \$3350 for US \$1 on 19 August, the Finance Commissioner of CHEN Yi's administration arbitrarily changed the official cross-rate of CNC \$30 to Taipei \$1 to CNC \$40 to Taipei \$1, against the attempt of the national financial authorities to maintain stabilization of the Chinese currency within the country itself. This has occasioned a dispute between the national and Taiwan financial authorities of such proportions that the matter has been referred to the Executive Yuan.
7. In the other branches of the administration, such as agriculture, industries and mining, food supply, communications, and public health, Governor CHEN Yi has persistently refused to accept direct appointees from the Ministries of the National Government, or has hindered the work of these appointees. In so doing, he has prevented the Chinese government from supervising the functions of the branches of the Ministries. Because he has also refused financial and technical assistance for the island, reconstruction and rehabilitation of post-war Taiwan is difficult. Even the relief work of UNRRA and CHNRA is not

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given a free hand.

Monopoly

8. All trading in principal items of export from Taiwan is monopolized by the Provincial Trade Bureau. According to official announcements, this bureau has been instituted to function as a purchasing and sales office for various provincial enterprises. As all provincial enterprises of any size are government-operated, there is no room left for private trading. The Trade Bureau alone has the use of the scanty and sporadic shipping facilities, which are also under government sponsorship. The Commission for investigation of take-over proceedings has recently disclosed many abuses of the Trade Bureau.

Note: Source A believes that there is no chance for foreign business on the island at present because of the monopolistic control the administration has over all industry.)

9. When the Chinese recovered Taiwan last October, they found concentrated on the island many more industrial plants than those existing in any single Chinese province with the possible exception of Kiangsu. About 95% had been owned by Japanese government and private interests of the Zaibatsu clique. They passed into the hands of the provincial administration. According to official figures, the provincial administration's Department of Industries and Mining has taken over 495 units of industrial plants.

10. [REDACTED] the provincial administration has set up twenty-nine government-owned companies to operate 237 former Japanese government and private establishments which included branches of Japanese trusts, subsidiary firms and independent organizations. The twenty-nine companies in question are: (1) Petroleum - controlling eleven Japanese establishments, including the No. 6 fuel plant of the Japanese naval base at Kaohsiung; (2) Aluminum - controlling two plants of the Japanese Aluminum Company at Kaohsiung (TAKAO: 22-38, 120-18) and Hualienkang (KARENKO: 23-58, 121-36); (3) Copper - controlling two units of plants; (4) Electric power - taking over the gigantic Taiwan Power Co. which during the war controlled the Philippines, Hongkong, Malaya and East Indies electric power plants; (5) Fertilizer - controlling four Japanese establishments for chemical fertilizer; (6) Caustic soda - operating four Japanese plants; (7) Shipbuilding - controlling three shipbuilding and dry-dock establishments; (8) Paper - embracing seven mills; (9) Sugar - controlling sixteen large mills which hold ten per cent of the arable land of Taiwan in sugar-cane plantations; (10) Cement - with eleven Japanese firms assigned to it; (11) Coal mining - operating eleven Japanese establishments; (12) Spinning and weaving - covering seven Japanese firms dealing with cotton and other fibres; (13) Pottery - controlling two firms which specialized in making bricks, ceramics, etc.; (14) Glass - controlling eight plants; (15) Oils and fats - operating seven plants; (16) Electrical engineering - embracing all establishments engaged in telecommunications manufacture and dry battery manufacture; (17) Printing - covering the manufacture of printing ink, and photo engraving plants; (18) Iron works - controlling twenty-two plants, including machinery and machine tool factories; (19) Steel and iron foundries - controlling five plants, including those for salvaging scrap iron; (20) Chemical engineering - including a rubber factory; (21) Construction - including a road-building firm and four of the Japanese "domei", a type of wartime cooperative; (22) Fishery - including shipyards for the construction of fishing vessels, and a processing plant; (23) Tea - controlling seven plants, including a large Mitsubishi unit in Taipei; (24) Pineapple - controlling a number of plants engaged in processing of canned pineapples, in which industry, before the war, Taiwan ranked third in the world, after Hawaii and Malaya; (25) Animal husbandry and canning - controlling seventeen establishments, including those engaged in making milk-powder; (26) Agricultural products - controlling thirteen establishments for processing general agricultural products; (27) Forestry products - controlling eleven establishments, including lumber mills.

Note: Source A stated that these saw-mills, like most on the island,

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are quite modern.) (29) Pharmaceutical products - controlling ten factories.

11. The production rate of all of these enterprises is, however, only 10%-20% of normal. The majority of the mills and plants are left idle, as the provincial administration has done nothing to revive or develop them. The pattern of action adopted by the authorities is to appoint a "supervisor" to each of the establishments, who is usually not technically qualified and inefficient, serving only as a symbol of authority of the new regime.
12. Even in the cases of the few enterprises in which production is continued the provincial administration, through its supervisor, leaves much of the management still in the hands of the original Japanese staff. Thus, these Japanese who are retained as "technicians", continue to lord over the Taiwanese employees and workmen. This state of affairs was particularly true in the large utility companies and the railways months after take-over, and has given cause to a wave of indignation among the local populace.

Agricultural Crisis

13. The major portion of the population of Taiwan is rural. The present regime has done nothing to assist the farmers in matters of seeds, implements and supply of fertilizer. During the Japanese domination, some 250,000 to 300,000 tons of chemical fertilizer was imported into Taiwan each year for the sugar, rice and other plantations; but since the CHEN Yi regime was installed in office a year ago, only about 5,000 tons of fertilizer have been shipped to the island.

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Note: [REDACTED] the fertilizer shipped in by UNRRA was taken over by the government and sold at exorbitant prices.)

14. During the war years, the rice stock of Taiwan was depleted by shipments to Japan. Taiwan faced an acute rice shortage because of the poor crops last year. Rice prices advanced from less than one dollar, local currency, per pound, to as much as over twenty dollars per pound.
15. Then, a number of new taxes have been introduced. It is recently ascertained that taxation is so heavy that land-owners and ordinary farmers would prefer to abandon their land and crops because the value of these is not sufficient to cover the various taxes imposed. In some districts, the people have openly and rebelliously refused to pay the taxes, risking prosecution against bankruptcy.

Japanese Repatriation and Underground Net

16. According to figures released by the Taiwan Provincial Administration, a total of 454,826 Japanese, 165,538 Japanese POW and 289,188 Japanese civilians, were still in Taiwan at the end of April 1946. Some 27,000 Japanese are now retained as "technicians" and specially qualified professional men.

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Note: Source A stated that there are still 22,000 Japanese in Taiwan.)

17. Granting that the official figures are correct, the 27,000 retained represent a large number of Japanese holding key positions in official organizations, public utilities, important industries, and even on newspapers. The Taiwan people have always argued that the majority of these retained Japanese should be replaced by equally qualified persons from the local populace or Chinese from the mainland.
18. The retained Japanese also include many active underground Japanese, some of whom have been recently arrested after their activities had been exposed. But large sections of the entire net still remain unmolested. It is common knowledge that before the Japanese left on repatriation ships, they held mass meetings among their own groups, making speeches and confiding to their close

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Taiwanese friends and employees that they would come back in two, three, or ten years to take things over again from the Chinese. The local police never bothered to investigate or intervene at such gatherings.

19. The more serious situation, however, lies in the concealment of arms, ammunition and other military supplies of the former Japanese military forces stationed on the island. As Taiwan was the important base of their "southward movement", the Japanese concentrated on the island unusually large quantities of such supplies, which were practically intact when Japan's quick surrender took place. Yet, when the Chinese took over the island, they accounted for a relatively small quantity of the equipment. The provincial administration has never announced its findings in this connection, despite public demand for a clarification of the situation. As a matter of fact, the take-over officials were too much occupied with the seizure of public properties and remunerative enterprises to keep a close watch on the subversive activities of the Japanese. Although it is an open secret in Taiwan that arms and ammunition have been buried underground, a few lots having actually been unearthed, no real effort has been made so far by the authorities to investigate the matter thoroughly.
20. The mountains of the island are still inhabited by tribes of aborigines, who number about 140,000 according to a census compiled in 1930. These natives were taught in Japanese customs and educated in schools specially maintained by the Japanese colonial government in the mountainous regions. The indoctrination of the aborigines was done so well that the natives have become Japanese in every way. Some of the tribesmen even intermarried with Japanese.
21. As soon as news of Japanese surrender was confirmed, the Taiwan colonial government lost no time in sending important military equipment to the mountains inhabited by these natives and to other pre-planned centers of concealment. A skeleton force of military experts went to the tribes and, disguised as natives, continued to operate after the majority of the Japanese military forces had been repatriated. These Japanese are still in the districts adjacent to the mountains; their movements are neither stopped nor investigated by the government authorities. They roam around the countryside in bands, fully armed and in uniform. Their number is estimated to be from 2,000 to 5,000.
22. Another loophole of the repatriation scheme may be found in the question of naturalization. During the Japanese regime, many Formosans changed their Chinese names into Japanese. These opportunists attempted to restore their Chinese names as soon Japan surrendered. The provincial administration under CHIEN Yi proclaimed a set of rules to facilitate and legalize such naturalization cases. Persons with Japanese names could have them changed into Chinese without much difficulty; the authorities demanded only a "shop guarantee". Such a guarantee is not difficult to get, especially since the person concerned may be the real owner of the shop in question. In this way, many Japanese have avoided repatriation.
23. From the recent case of the "spy ring" arrest in Taiwan, in which a former executive of a leading Japanese newspaper, retained as editor of a new daily published by the Kuomintang, was implicated as the liaison of the ring, it is evident that the Japanese underground net in Taiwan is also in close contact with that on the mainland and in Japan.

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Communists in Taiwan

24. As far as can be ascertained, the number of Communists who have infiltrated into Taiwan has steadily increased in recent months. The Communists are now chiefly engaged in disseminating propaganda in the rural districts. Meanwhile, along the China coast there are a large number of islets which serve as hideouts of pirates and other unruly elements, including units of former mercenary troops who collaborated with the Japanese. Both the Japanese underground organization and the Communists are attempting to "line up" the pirates and other unruly elements along the South China coast. The Communists are also reported to be trying to buy arms and ammunition from these unruly elements to be smuggled to Taiwan in small junks under cover of darkness. This may indicate that the Communists in Taiwan have gained enough foothold to warrant acquiring military equipment, although on a limited scale.

Crime wave

25. Apparently the provincial administration has never done anything either to purge the rural districts of all undesirable elements or to round up hidden arms. As a result, crimes such as hold-ups and kidnappings are frequent occurrences even in the streets of Taipei, the provincial capital. Recently a number of administration officials were openly assaulted in broad day-light. The police forces are increasingly challenged by armed gangsters. Handbills denouncing CHEN Yi's administration are found at many street corners and even on the window of the Governor's own car.

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